

Podcast: Sarah Tavel & Eric Vishria, Benchmark Capital, on Turpentine VC, w Erik Torenburg

<https://www.podpage.com/turpentinevc/e13-do-the-work-benchmark-on-how-vcs-can-actually-provide-value-to-founders/>

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Transcript organised and lightly edited by @sajithpai

Sajith: Benchmark is such an interesting firm, given the strategic choices they made around equal partnership, and working without any support (no analysts / associates, just an occasional Principal, and no platform team). In this episode, there are interesting discussions of the implications of these choices and tradeoffs. The bad is that this can mean insufficient coverage (not enough cold bodies to email) or support to founder, but the good is that it is a forcing function to focus on what is truly important, which is direct time to the founder on key inflection points, and build greater and better context about the business which informs future decisions. There is also an interesting section on how they think about future Partners and recruit them. Benchmark is a one of a kind firm. It is very unlikely there will be too many more like it, so it is unlikely any of their strategic choices will fit those of other firms, but it is fascinating to see the entire set of choices and tradeoffs, and how they make for a firm like them, and the implications of these choices.

Erik Torenburg: Welcome back to Turpentine VC. Today's episode is about Benchmark, a storied firm that operates in many ways very differently from firms we've interviewed in the past on this show. If you head to Benchmark's website, you'll see that it's incredibly minimalistic with just one homepage, a couple of office addresses, and a link to a Twitter list of their portfolio companies. This is of course, by design. One of their core beliefs is that platform teams exist to help the general partners not to provide leverage to the founders. On today's episode, we'll dive deep into this topic among others that are central to Benchmark's belief in firm building. We filmed this episode with Sarah and Eric at Benchmark's office in San Francisco. If you like what you hear, please do subscribe and leave us a review. Without further ado, here's my interview with the Benchmark team. Sarah, Eric, welcome to the podcast.

Sarah Tavel: Thank you for having us.

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Benchmark and the different eras of venture capital

Erik Torenburg: ... Speaking of in this podcast, we've been covering the history of venture capital, looking through a few different firms, Sequoia, Kleiner, Andreessen, Benchmark. When you think of Benchmark in the context of venture capital, in the context of the history of venture capital, where does it fit? How do you think about the era in which Benchmark came in relative to the era and which other firms came in?

Eric Vishria: History is super interesting because, and I think it's actually reflected in the culture of various firms. If you think about it, a lot of the original venture capital was when semiconductors were huge and there was a lot of innovation happening there at the very foundational level. So if you think of Sequoia for his example, that's a semiconductor era firm

founded in the seventies. Benchmark is distinctly an internet era firm founded in 1995, and then you could fast forward in Andreessen's, I guess mobile era firm founded in 2009 or 2010 or whatever. And so they're all reflective of those eras in terms of you can kind of think of what did it take to be really successful in those businesses and to be successful in a semiconductor business need to be very operationally rigorous and you need to watch every penny and you need to be extremely financially oriented and to be successful. I think in the internet era it was a lot more forgiving that way. Financially it's a lot more forgiving and so you have a lot more flexibility to let founders dream maybe, and you don't have to watch every penny, but you do have to hyper focus on growth. But it's a 1995 era firms, so we're coming up on 30 years and a lot of those attributes still exist today. Yeah.

Sarah Tavel: I might add a couple other attributes that you just make me think of, which is like firms even you see this in startups, you set the bones of a company so early on, the culture, the orientation, and then even when it starts as a couple people and it expands to thousands, you still see that early DNA and it's very true. And then I also think about the year, the vintage that a firm has started, right? Benchmark was started internet era, but before it was the beginning where it really expanded and then the firm was started then as if you are thinking about that early stage founder who is going to be going on a decade long journey, what's the firm that you would design from that person's perspective of bringing on a partner and work backwards from there? And then when the craziness happened of the internet bubble and after that Benchmark expanded as many do during times those types of bull runs and then kind of realised, came back to the knitting. And I think about some of the more recent firms too, where the firm that starts today, it's going to be very different than the firm that was started 10 years ago and very different than the firm that was started 25 years ago just because of the capital environment too. And so it'll be interesting to reflect on that 10 years from now and see what's emerged.

Erik Torenberg: Yeah, some firms that have aggregated a ton of capital over the last decade, it'll be interesting to see if they too consolidate or narrow or if they just keep going to the moon. But you guys have transitioned very well to next eras. When you look at the most iconic mobile companies, people think what Uber, Snap, Instagram, Tinder, I'm sure there are others that you guys have done. So what do you think is the Benchmark DNA that has enabled you to succeed in multiple areas?

Benchmark's DNA

Sarah Tavel: When I think about, there's a couple things that come to mind for me. Of course, there's just the endless curiosity and that we all try to nurture in each other and we have habits as a firm that are ingrained in our culture that are all about nurturing that curiosity and just not constraining it in any way. Our Monday meetings as an example, there's no agenda. It's not like this is the time to talk about new projects, this is the time to talk about existing portfolio. It's just this open-ended thing that lets us start the strangest conversation sometimes, but are all about pulling the thread of someone's curiosity, expanding and see where that goes. And then the second thing that I really think about is just that the joy that we all feel partnering with founders and there's nothing like that work. I met with a founder the other day and he is like, oh, you must be so exhausted, you're just hearing pitches all day.

And I was like, that is not my experience at all. That's not our experience at all. Every time we talk to a founder, it's just the delight in hearing the future that they see and imagining together how that journey is going to look. And we all feel that joy and then it manifests in the type of

partnership that we want to have with the founders we work with, which is each of us making one or two investments a year and having the deep commitment when we do partner of what that work looks like and doing the shoulder to shoulder stuff of recruiting, of company building and being enmeshed in that whole organisation so that we can be the best partner to the founder. I think that's one of the biggest things that you feel at is in our partnership meeting when we're talking about company building and the companies that we work with and the founders that we want to partner with, is that that joy and delight in that partnership.

Erik Torenberg: What makes Benchmark, Benchmark is the five equal partners are now six.

Sarah Tavel: Now six, six as of like a month ago.

Erik Torenberg: Which we'll talk about. No platform team and just consistent fund sizes and focus fund after fund at a time where lots of other firms have aggregated lots more capital, lots more practises or firm products. You guys had a stint where you went bigger. Talk about what you learned from that and do you think that that just wasn't the right fit for you or what the firm learned from that? Because I'm curious, given all the opportunities your success has enabled you, what would need to change in order for you guys to say, Hey, actually we should do something a little bit different even though we've been doing the same thing for such a long time.

Eric Vishria: We are always asking that question, and we think of every new partner as an opportunity to refound the firm and we think of it as a refounding of Benchmark. Every new partner is an opportunity to do that, and so you always have to be questioning your assumptions and are you doing the right thing and everything else. The expansion of Benchmark that had happened in the early 00's was well before Sarah were there and even the expansion and contraction happened before, but if you talk to the founders, it makes sense. The firm was founded on this idea of an equal partnership, which is, it was originally five, they came in, a dollar comes in, they split it five ways, doesn't matter who has the board seat? Everyone owns the management company equally, everyone has equal economics. There's a lot of good things with that.

It gives you a lot of flexibility in terms of who you can bring on because you're cutting someone in equally in economics. And so it's lucrative to the unproven venture capitalist. It eliminates internal politics. You're not jockeying for additional economics or more control or whatever or trying to get your deal through because everyone has equal skin in the game, so to speak. Five, six people like, okay, you can have a lot of trust and affection for a few people and you can work together really well, but you can't have 15 equal partners. Humans need management at some level of scale and so it doesn't scale. This is the reality of it. And one of the things that happened in the expansion is that just showed, which is like, hey, the founders would say they were spending a bunch of time on stuff they expressly did not want to do, which was managing a firm. We spend almost no energy managing the firm. We literally spend no energy managing the firm.

Sarah Tavel: It's laughable.

Eric Vishria: It's horrific how poor we are at managing the firm because we're spending a hundred percent of our time with entrepreneurs looking for the next great company, working with the companies that we are already working committed to. And that's where all our time goes.

We spend almost no time fundraising, literally no time fundraising. And so a lot of these other aspects of the job we just don't spend any time on. And so I think that's one of the advantages, but it also has an express constraint, which is, it doesn't scale particularly well.

Erik Torenberg: And is it fair to say that the best firms that are scaling Venture that they might make more cash but they will just make lower multiples? How do you think about the trade-offs?

Eric Vishria: I don't know. I haven't thought about their business model that much to be honest with you. I think they have put in structures in place that are probably more hierarchical, that look more like companies than they do like firms and that they're hierarchical and they're CEOs and they're managing partners and they're people who have decision making authority and what not, which is great. I think it takes all kinds, but it's definitely different. We would utterly fail at that and not well equipped to do that.

Sarah Tavel: And I'd say certainly our aspiration is to set the high watermark on multiples. Benchmark has a history of having done that. We wake up everyday paranoid that we're going to how do we out hustle out work, whoever it is that we need to do so that we can be there in front of the founder who's going to build that next iconic company. And that's the paranoia we wake up with every day is making sure that we're going to be in the room.

Erik Torenberg: Yeah, it seems like the flood of capital in the past decade is challenging for your strategy because prices go up these undisciplined firms perhaps. And so for the same deals you either don't do it, the price comes up or you just have to pay a higher price. Feel free to, how would you respond to that characterization or how do you guys think about macro as it affects your business?

Eric Vishria: I'm worried about that a lot less actually. It's kind of interesting. Sure, there's inflation inflation's real. Our initial cheque size I'm sure has gone up and so forth, but the reality is outcomes have gotten bigger. So from a multiple perspective, I don't know that it is as constraining as it might seem on the surface to do that. I think we can still generate 20-50, a 100 x outcomes for our investors and have those runaway companies. The key is being with the runaway companies. One of the special things that makes Benchmark, Benchmark is that the level of commitment that we have to have internally in our own minds to work with a company. We were talking about a company this week, literally this week that's very exciting and a great entrepreneur in a cool space, but maybe a space that we owe less about one of our partners models is just like if we were in a place where we would do a participatory cheque, this would be one that we, but we don't do that.

So because we don't do that. If there is a company, the commitment required, forget about the money, but just mentally you're saying, I'm going to work on this for the next decade and I want to work with this person for the next decade and really work with them and it's going to be one of the, I don't know, 15 shots I take over a course of a decade. That's a pretty reasonably high standard that you're holding yourself to in terms of the conviction that is required. And so that's where it kind of manifests.

Erik Torenberg: So it's you two, it's Chetan, it's Miles, it's Peter and it's your newest partner, Victor. This is the third era of Benchmark. Talk about the other two eras and how this era compares.

Eric Vishria: I'd say how does it compare as maybe it all work backwards is? It's startlingly similar. It's a small group of people who like each other and like to work together and call each other and talk to each other. Often we have a very pass the ball mentality. So, Sarah sees a company that she thinks is interesting while she starts to do work on it, she's very likely to pass it to another partner to meet and engage with and start pulling up questions and diligence and everything else. It's a very kind of collaborative culture that way. The group has a lot of fun together and that esprit corps of that, you yield better outcomes. Just you're talking about how to help an entrepreneur work through something and then you're pulling on all these stories continuously. And then the history of the firm's interesting because the founders, to me, the biggest leap that the founders made wasn't founding it equally, which you can say founding a firm as equal partners was like, how do you cut it up? Okay, great.

But they had tremendous success right out of the gates with Benchmark 1 with eBay and Ariba and many others. And the big leap was the first next partner that they hired and bringing that person in. So they had built all this brand equity they had built, had generated returns, they had done the initial LP raise, which wasn't easy for Benchmark. It wasn't hard, but it wasn't easy. And then they brought that next person in as an equal partner. And that to me was the moment that set the tradition for the go forward. And it's something that everyone here is always super conscious of, even when you're bringing on a brand new person. When I came on, I had no investing experience, like Zero, literally none. Victor who just came on was the CEO of a company Wildlife Studios, a gaming company that he scaled from zero to hundreds of millions of revenue and he has zero investing experience, but he's hungry and curious. And so those are the parts that are just startlingly similar.

Partnership construction, recruiting at Benchmark

Erik Torenberg: How do you think about partnership construction, right? Because you mentioned you had no investment experience, your newest partner had no investment experience, Sarah had a bunch of investment experience as well as some operating experience. How do you think about before you just recruited Victor, who's someone who we need to add to the team or what is the right combination of skill sets and personalities that makes it really strong partnership?

Sarah Tavel: I mean, it's something that we're very intentional and thoughtful about because one of the things that you probably are hearing from Eric is like, yes, the job is an individual sport, but there are moments when you come together as a group where you want to construct a way of working together, a partnership where in that critical moment. There are some critical moments that happen in a venture, the moment of deciding the moment of winning and then of course supporting the company during some important crucial moments. Those moments are when we come together and believe that the firm is at its best self because we get to be larger than the sum of the parts. And so, when we think about than those moments, the sourcing, the deciding, closing, supporting, and then finally exiting, and you think about on the sourcing side on the top of the funnel, well, where do we not have a lot of exposure right now as a group?

You think about the deciding part. How is somebody's perspective going to come to the table and make us all better? Maybe somebody spikes. We all have different ways in which we spike. So does somebody spike in business model analysis and the people relationships and the empathy for the founder, whatever it might be. And then you think through that all the way down so you have a little bit of context awareness. So almost when we're having these conversations

and then ultimately in the same way that it's a bit falling in love with a founder and a company when we meet it, there's something that ends up just feeling right when we meet somebody and develop a relationship with them. After me, there was Chetan with whom Peter was on the board of Elastic, Miles was on the board of Benchling with Eric and Supergreat with me. Victor is the CEO of a Benchmark company. And so we got to see him through a few years of him being the operator of an investment of ours. And so we get a moment that you lead up to where you make a decision because fallen in love and it has the depth of relationship usually, and also that context awareness.

Erik Torenberg: And so is it more bottoms up, Hey, we just have to have this person, or is it somewhat tops down of, Hey, we're weak in this network area or weak in this sector and we're comparing let's say Victor with other people who are...

Sarah Tavel: There's no one way, but it has these elements. It's like people ask, are you roadmap investors? Are you thesis investors? And I would say some of us will develop a thesis and certainly we'll see an area that we believe is coming together so we can nurture a prepared mind. And then you just meet a founder and you didn't expect to be excited about that area or company, but they say something and you just see something you can't unsee and it's a similar dynamic.

Erik Torenberg: So, you guys are poachers, you're gifted poachers. You mentioned Victor, you said CEO, Miles is at Thrive, Chetan was at NEA, you were at Greylock, so you just happened to work with these investors. They would be even better at vegetable. Obviously you have a better offer than any other firm given how your firm's structured. But what's the process of getting to conviction and sort of poaching? How do you guys think about it?

Eric Vishria: It's long and tortured and windy. It's such an organic process because again, it's such a commitment, right? Something we bring on a new partner, I think when I joined six years had gone by between Matt. Matt was before me and then it might've been even closer to six or seven years between Matt joining and me joining.

Erik Torenberg: So, you were the bridge between the third....

Eric Vishria: Between, yeah, I think the beginning of the third generation maybe, and it's just an organic long process time.

Erik Torenberg: Are you deliberately recruiting?

Eric Vishria: We're always recruiting. We're always recruiting. We spend time on it weekly. And part of it is like this is where it's amorphous and weird is you're not recruiting to say, wow, we need an enterprise SaaS infrastructure investor at this level. It's not anywhere close to that rigorous. It's that part of the job is perpetually meeting amazing people. And so you're constantly trying to meet great people in the industry and super smart up and comers. We spend a lot of time with 20 to 30 year olds who are proving themselves and breaking out and making a name for themselves or building a reputation of having huge impact and being savvy. And so we're kind of constantly trying to meet those people. And then every once in a while, you'll have a conversation with a CEO or with a fellow investor or with an entrepreneur that makes you think like, huh, the person might be really good and would fit right in and add dimensions to us, and

would be a good cultural fit and let's explore that further. And then I'd be like, Hey Sarah, I met this person. It tickled my fancy, let's meet again. And so, it's pretty organic that way in terms of the process. It takes a lot of time, but it's rewarding.

Erik Torenberg: Our friend Scott Belsky, who worked with you guys for a few years and remains good friends of course. One thing that was surprising to him in a good way about his time at Benchmark is not just that you guys spend time talking about products and founders and spaces, but also that there was this sophistication about what's happening more macro, what's happening, economy, what's happening in finance. And a funny analogy I'll make is this, sometimes I see some war veteran complaining about the direction the country has gone or when I talk to older venture capitalists and they look at the past decade of venture, they're like, I can't believe it's, they've been like this because you haven't been rewarded for playing the right way. I mean many people have lost for playing the wrong way, but many people have also been rewarded for playing, I don't say the wrong way, but a little fast and loose or a little bit, just not super fundamentals by the book. And so it must have been challenging for you guys or even just the past generation being so fundamental and by the book or maybe having to stretch at certain times in an era where it was more chaotic.

The last few years in venture funding, and the shifting relationship between founder and investor

Eric Vishria: You have to play the game on the field, but at the same time it's hard to time these bubbles. I think one grounding thing that's really helpful, I think anybody, it doesn't matter if you're an athlete or a musician or an executive or a venture capitalist or an engineer, you do your best work when you're doing something you love to do. If you love it, really love it, love the job, love what you're building, what you're doing, the people you're working with, you'll do your best work. And that resolves a lot of problems, which is in the sense that if you're like, I don't want to speculate. It is not in my nature, it's not fun for me. I get value and satisfaction looking at a durable company that is compounding year after year. And I know that 10 years from now it is still going to be here and it's going to be five times the size in making an impact to their customers and to their employees and to their investors.

And I get a lot of satisfaction from that. I don't get a lot of satisfaction from winning a hand at a casino. It doesn't do anything for me in the same way. But you're definitely right. In the last several years people have made a lot of money doing that and speculating or momentum investing or whatever, and that's fabulous. It's great that they've been able to do that, but I don't know that we get a lot of satisfaction from that and a lot of joy. And so by focusing on what you love and that part and just the great entrepreneur with a great idea at a special moment in time, it solves a lot of the FOMO.

Sarah Tavel: I agree with that. What I'd add is, when we look at our investment pace, and I think it was 2020 - 2021, it was historically slower. And it's because we value so deeply the depth of relationship that we form with the founders that we end up so true backing and what you felt in that era was this Zoom screen. It was just like the founder. It was just like we were another face. And every time you would have a first call with a founder for Zoom, we have six term sheets and I'm happy for them, but what are they looking for? And it just became a little bit this optimization that things were just moving so quickly all the time and it wasn't that depth of relationship that we value and is what brings us the joy in the work that we do of partnering over these good times and bad times with companies that all inevitably go through, especially now.

I mean holy cow, things just thrash all the time. And so the person you have in your corner, I think on the board is more important now than it probably has been in any of the prior eras. That just wasn't as much of a fit for us. And then I look at this year and we're on pace for making the most new investments in a year than we have been for 10 years. And it's just because now it's backed. There's a couple things which is like one you just think about the last few years, it has been so hard to be a founder. You've gone through these incredible moments of thrash, covid is behind us, but then you have the interest rates changing. What happens there? You have Silicon Valley Bank and what happens there and this crazy weekend where everybody was wondering how they're going to make payroll and these things happen now that no matter what size company you are, you're going to have to deal with these huge systemic shocks.

And that makes founders care and value so much more, not the firm, but who that person is that you're going to be partnering with. And so that's number one where people care now more than ever, not more than ever, but certainly more than the last 10 years of who that partner is that you're choosing. And I hear that a lot with the founders that I meet every day. And the second thing is that there's a little bit of, we're not in that craziness of having to make these very fast decisions. And then you have the founders who did make those decisions and warn other founders not to do it, to get to know the partner that you're having on your board. And those two things coming together, and of course so many of the interesting trends that are happening in the world of technology has meant that we just feel like this is a type of time that we love to make new commitments.

Erik Torenberg: It feels like the last few years there was a lack of discipline between the relationship between investor and founders. Maybe investors were a bit too submissive, founders were raising all these crazy rounds, etc. And now is a return to back to basics. I'm curious how you guys think about today where the proper pushback between in the investor founder dynamic.

Eric Vishria: In any relationship, that where you're trying to create something or build something, you need some tension. If you think about engineers working with product managers and designers, you need push and pull. You need constraints, you need it to go back and forth and through that tension, you get better results. In times it swings too far one way or too far the other way. One of the challenges for example would be with the east coast venture capitalists or the European venture capitalists, the financing for tech companies was such so scarce in those geographies for so long that they had too much power. The investors had way too much power and it led to suboptimal results. You didn't have the ambition or the dreaming that you would get otherwise. You're getting forced to cashflow break even as a three-year-old company. That's not necessarily useful. And by the same token, it can swing too far the other way. And so it needs to be productive. But ultimately the relationship and the partnership with the founder is based on working closely together and trust because then I think you can all realise like, hey, we're pushing back or asking you a question or pulling on something with the same objective of creating the biggest and best company that we can. I think that North Star alignment is really important.

Sarah Tavel: To me that's exactly what it comes down to is. There's almost a positive selection bias, and I feel this all the time when meaning with a founder, there's a group of founders that they just want to build the best damn company they can build the one that has the most impact.

They have the ambition to build something as great as they possibly can, and those founders don't want someone to just come to the board meeting and clap. They want to know what does great look like when they're hiring that next leader. We always think about pulling forward the future into the present. They're not just optimising for that next round, but you're optimising for what is the end state of this company and how do we build a company that has the best fundamentals, escapes competition has the culture that is going to have all the right checks and balances to build something that endures.

Sarah Tavel: And so, I find that I get most energised when we're pushing a little bit more. And this is one of the benefits of only making one or two investments a year, is that we're more enmeshed. We're almost always involved in recruiting all the leaders. We know the founders really well and we can start to see, okay, it looks like remember that thing we heard in the back channel when we were hiring this person? It's starting to show up and pulling forward some of those decisions. And when you make a decision 10% earlier and you make the higher, 10% better, 10% faster, whatever it ends up being, those things compound. But oftentimes it means that we're advocating for something that we see as important but not necessarily urgent before the founder themselves might otherwise have seen it because there's so much else going on. And oftentimes the last thing you want to do when you're a founder is think about adding something new to your plate, even though it's probably the right thing to do and it'll be the right investment and it'll help you two quarters from now even if it's going to hurt you in the next two months. But that work means pushing a little bit and advocating a little bit, and we hope it ends up bending the curve a little bit more for these companies and leading to founders that want that.

Benchmark's views on founder value adds / platform teams

Erik Torenberg: One of your beliefs is that platform teams exist to scale the GP rather than get leveraged to the founder. And I found that curious because don't you want to add as much support as you can or get as much leverage? You have assistants, you have a Principal in Blake (Robbins), and my take on that is that you believe the costs of having the platform team in terms of all the coordination or sort of how it excuses maybe the GP to spend less time outweighs the benefit of getting the extra support for the founder.

Sarah Tavel: We're not a group of individuals that rest on our laurels. We're always thinking of refounding Benchmark, re-asking you meet somebody who's a super talented leader, should we? And what we realise is even if we had it, we wouldn't use it because we love the work of helping a founder find that great sales leader. And we think that we by being involved and ourselves as partners, getting the reps over and over and over again that we ourselves get better at advising the founder on the different types of engineering leaders or sales leaders or whatever it is, the network, the back channelling, whatever it is. And then of course helping close. We want to be involved in that and fully integrated and having a blind spot on any leader. I feel it when I'm not involved with helping recruit one of the leaders. It feels to me almost like a little blind spot on the team, but I just don't know that executive as well as I know the other ones. And having that full experience with the founders, going through those recruiting calls together, ends up meaning a better relationship with the founder and our ability to be a better partner to the founder. And so if we had it, it would be the least used talent team, and so it's just not us.

Eric Vishria: Yeah, so much of the value of a partnership with entrepreneur happens in these very few moments a year. Maybe there's two or three. It's not every month where the

entrepreneur's faced with a key decision, a crossroads of some kind and what to do, what not to do and how to change something. And by definition it's not an obvious answer. Of course, they've listened to the podcast and they've read the blog posts and they've looked at all the VC content marketing and they've read the books of the companies, but it's situation specific, right? It's market specific, it's company specific, it's personnel specific. And in those moments the entrepreneur wants a sounding board, a partner to just navigate it to try to make it, as Sarah said, a little bit better decision. And the question is, what do you need to have in order to be an effective sounding board in those moments?

I think all the value comes from those moments, and in order to be a valuable sounding board in those moments, you just have to have the context and you get the context by doing the work on an ongoing basis. And then in those moments you can be valuable as a sounding board, ask the right questions, help the entrepreneur have conviction or more conviction or confidence in the decision that they're making and their recommendation. And as Sarah said, bend the curve. And so that's so much of how we tackle the job.

Erik Torenberg: Well said, I'm only 33, but even I've been amazed at how every few years there's just a new crop of entrepreneurs.

Eric Vishria: That's amazing.

Erik Torenberg: And the board changes a bit and I imagine that there's some percentage of deals for whom you guys have a unique perspective on that there aren't other firms competing for. And then there's some percentage of deals that you mentioned earlier, the six term sheets, they're very competitive. It's a very competitive venture landscape. And you mentioned that deal activity this year is up, but past few years has been down and other firms do more on content marketing and they do more deals. And so if these next crop of entrepreneurs are, hey, their deals are funded by x firm and that firm also just is more out there, how do you guys think about remaining the most relevant or the most top of mind or the most favoured firm relative to your best peers?

The pipeline at Benchmark, and winning deals

Eric Vishria: It's a perpetual challenge. There's no doubt about it. It is a perpetual challenge. There are six of us covering technology that's tough and it's a tall order so that part's there. There are maybe two comforting things in it. One is the entrepreneurs we do work with have to deliver for them. And because they're not that many of them, we have to deliver for 'em and we want to do that and we're sentenced to do that, I guess is the point. And so in every competitive situation I've ever been in, it's the entrepreneurs that we work with that have been the biggest advocates that have tipped it in our favour every single time. And so we have to continued to foster that. The other part is you don't have to do all of the investments. You don't have to get every company, you don't have to do that. We aspire to be in the few that matter and that turn into big special companies. But that isn't all of them. It's not most of them. It's not even a large percentage of them.

Erik Torenberg: So, you don't worry about seeing every deal. Some firms need to see everything and they can't miss anything, but just can't. Yeah, you're not structured that way.

Eric Vishria: Yeah, we just can't. Just not possible. What we have to do is double down on selection.

Erik Torenberg: Selection and giving the founders great experience. In the last decade we had a lot of, part of it was the sort of economic environment, but also we had this philosophy of blitzscaling and particularly around sort of tech enabled businesses that weren't necessarily software first businesses, and there's dozens of them that raised tons of money. Some of them did well, some of them did less well. WeWork is one in your portfolio. I'm curious what you think the broader lessons are from these kind of tech enabled businesses and if you think venture will keep investing in them or what do you think are the lessons that you've gone pretty deep in marketplaces, some of which are more software than others?

Sarah Tavel: It was Bill who talked about how the more optimistic or looser the funding environment, the lower the gross margins are and the businesses that get funded. And certainly, that is a dynamic that you see a lot or have seen a lot and is very different now. The other thing that I think about a lot is we had a CEO of a big public company come in and he'd use this expression that I love, which is that bad breath is worse than no breath. And he was talking about account executives that so many companies during the last 5 plus years, 10 years, the last part of this bull run have been so oriented towards growth and the bar has been set by all these companies where everybody's aspiring to the 3 or 4 x growth, these numbers that end up meaning a few different things.

They mean it's an orientation towards consuming more capital more quickly. It is a land grab orientation and there's reasons to do a land grab. If you have a network effect, then you want to run fast. The stronger your network effect, the further ahead you are, than the pack the more dominant you become. And then it's just the self-fulfilling prophecy. And so there are certainly types of businesses for which that game is never going to change and we love to play that game when we can do it when it's the right company for that type of orientation. But more often than not, you see this dynamic where people chase growth before the fundamentals are there, before they're able to support it with the right organisation where it might in a classic marketplace, the idea of going after 15 cities very quickly as opposed to going deep and dominating one city. That orientation has changed just because the funding environment as interest rates go up, there's a very clear counterweight that happens on the company's ability to fund these early days. And it's going to be healthier for these companies long term in terms of the bones and the DNA that they end up crafting.

Erik Torenberg: Sequoia famously I believe 1999 fund, was it Webvan.

Eric Vishria: Benchmark did too. It was a joint investment.

Erik Torenberg: Okay. I assume maybe I was only to say that the company didn't work out according to hopes, but they thought, hey, still the right thesis and maybe it's not the wrong time or the wrong company, but a decade and a half later, Instacart and that one worked out. And I'm curious, going back to tech enabled businesses, there's a lot of real estate companies that have raised as tech companies, not just real estate, but other kinds of companies. And I'm curious if you could imagine a similar story in the future of like, Hey, was WeWork the right business model for venture scale, just not the right time or execution or whatever. I wonder if you guys

are thinking about more discipline there or no these are good businesses. Software is eating the rest of the world and they make sense for us. Just business models.

Eric Vishria: I can totally see. I say never say never. We looked at a bull semen company this last week or the last couple of weeks. Bull semen, like literally bull semen. Well, it's the right question, which is this is the amazing thing. We never invested in a transportation company until we invested in Uber. We certainly didn't invest in a real estate company until we invested in WeWork and we've made very few hardware investments over the last 15 years. But we have an AI chip company called (inaudible), and the point is that all these are capital intensive businesses. And so I'd say never say never. You're trying to look for where the ground is shifting in the world where there's a scene between incumbents or something's changing that is going to create a crack of opportunity for a ingenious scrappy founder to break through.

That's what you're looking for and sometimes it's just a granite wall and there's no crack and that's a bad time and maybe you can use a lot of money and get a lot of dynamite, but it depends how thick the granite is. But other times there's cracks and if you look in the right way and you twist your head and you turn, you can see a path through and that's kind of what you're looking for. And those are the best in some ways because it requires this cocked head looking sideways and the sun just right to see the path, which means a whole bunch of people won't see it. And then sometimes there's just a giant wide open path and what happens in those cases is 20 people will see it and everyone will try to funnel through. And a lot of times that just doesn't work for anybody.

So it's a risk capital business and you want to keep taking those shots. Instacart did work and they seem to have done a nice job. Kudos to them. Just incredible job executing in what is a tough market. Then the last thing I was going to say is in markets like it's particularly difficult when you go through a ZIRP environment, zero interest rates for a long time, capital is raining down, there's new sources of capital. That's one thing we haven't talked about, which is there's all new sources of capital for venture that outside of the traditional endowments and foundations, you have a lot of sovereign wealth money and other things that have come into venture family office, which some will pull back, but whatever. There was a lot in new capital and then all of a sudden it changes and interest rates start going up very quickly.

And of course you have a global pandemic which completely changes office policies and whether people are in the office or not in the office. And so I would also say they're not small complexities those are societal changing things that have happened. That make it particularly difficult and those kinds of businesses versus a traditional software business where you are high gross margin, your primary cost is headcount, those are much easier to adjust or turn the dials on and especially in the recurring revenue business. And so some businesses are very forgiving to those types of macro changes and others are not.

Erik Torenberg: So what does the bull semen company do?

Eric Vishria: Super interesting company, with amazing founders solving a real problem, and it's kind of one of these ones where it's obviously way off the beaten path for us and not something we know a lot about, but you have to look.

Erik Torenberg: What do you guys think about when you think about the companies in your portfolio, what are companies that scream like this is a Benchmark company, this is the type of investing that we want to be doing?

Sarah Tavel: I think about Chainalysis, which is my first investment at Benchmark. What was so fun about that company is like number one, it's kind of the classic hearing about a company having a little bit of a thesis on the area, just kind of being intellectually interested, provoked by what was happening in crypto, trying to figure out and think through. We talk a lot about this idea of seeing the present clearly and looking at all the use cases and not having a lot of clarity at that point on what the use cases were going to be in crypto beyond what was happening at the time, which was store of value, raising money, more illegal things or outside of the normal legal framework reaching out. And while everybody else at that point in time was thinking about ICOs and token investing and all these things here we saw a company and a set of founders who saw something that other people didn't see.

Michael, the CEO had been at (inaudible) in one of the exchanges and realised that if crypto was going to become a big thing, there was going to need to be a company that was going to partner both with the public sector and the private sector to get the public sector more comfortable with the private sector that was regulated, was touching Fiat to then participate in crypto as well. And so he saw something before other people did, brought in two incredible founders, and then we saw both the early traction momentum and a possibility for this company to become the dominant player in their space, which is rare to find and software as a service companies. And it wasn't at the time that competitive of a deal. The company was over here, this exception to where all the momentum was in crypto at the time, and we got to partner, be the first board member, which is always our aspiration to partner as early in the company's life as possible. Ideally that first board member, and now it's been almost six years of partnering and hopefully many more to come.

Eric Vishria: My first investment at Benchmark was Confluent and it was the three founders and they were coming out of LinkedIn. They had started this open source project called Kafka, and that was it. And they were still employees, and so it was the initial round of financing and backing them and it was a popular open source project, but people viewed it as kind of this component that wasn't that important, that was a pipeline to something else. And the founders led by Jay Kreps painted this vision of why that view was incomplete and it was going to be a much bigger thing and here was the path that they were going to take to it. And it was going back to this granite wall analogy, cock your head and look right through and here it is, this is how it's going to go. And we have a lot of history with a lot of open source companies going back to Red Hat, it was like data infrastructure stuff that I like and authentic founders who just lived and breathed the problem, the solution they had thought about it extensively. And so what a cool project to get to be an investor in participant in. And here we are now, I guess nine years and it's a whatever, \$10 billion public company. So from nothing to that over the course of that time has been a spectacular journey and crawling through that crevice was something that they did astonishingly well.

Erik Torenberg: Let's go deep on some sectors. I want to start with the consumer social. So you guys have done some of the more iconic consumer social companies of the past 20 years. I mentioned Snap, Instagram, others, and I remember we were talking a few years ago, Sarah, before the pandemic that we were saying, Hey, maybe there's an opportunity to disrupt some of

these giants. People are bearish, but just maybe there's an opportunity. I'm curious for your reflections on what's happened. Let's say I went in a coma right before the pandemic or right when we were chatting. What are your learnings or what happened in consumer social?

Sarah Tavel: This would've been a good move to go into a coma. Exactly. I mean, look, I think you and I talked about a post I wrote about participatory social and this idea that I still believe in and which is that so much of what Social is today is this lean back experience where you kind of just feel bad about yourself. It's one of the things I always loved about Pinterest, which was that it felt like this space you could go to online, which was rare and wouldn't make you feel bad about yourself. It was about dreaming and being inspired and thinking about a more creative life, but so much of Social had become this space and we see it in anxiety levels and depression levels of young people is like, it doesn't make people feel good about themselves, but what makes people feel good about themselves is participating, engaging with their friends, doing that work.

And so I still believe that there's going to be a company that comes along that maybe it starts off looking like a game, but will be about that connection that will emerge and will have the potential to disrupt these incumbents. But what happened instead in the last four or so years was you had these two things come together, which was this real maximisation of the algorithmic feed. So you're bringing in this global maxima of content personalised for each individual, which makes these experiences so much more of what they already were. And then you also have the most addictive format that we've had in Social, which is short video. And so of course those two things come together with TikTok, which is just consumed minutes. And Instagram is doing a good job doing something that I've never seen another Social company do, which is take the same atomic unit of another platform and establish it in their own and make it happen.

Sarah Tavel: So they did it with stories. They're doing it now with short video and reels and it's just so addictive. I read this book, Dopamine Nation, went on a Social fast, and the thing that I just found that most pulled you in was short form video and it's everywhere. You can't get away from it. And it just means that the job of building a social network was always really hard. The list of companies that tried to do it and haven't succeeded is exceedingly long, and then that level of hardness just got turned all the way up. And so it's tough, but it's kind of back to looking for the exceptions and a little bit not giving up when everybody else has continue to be open-minded here, but it's not been easy.

Erik Torenberg: There's always this hope that every new generation has its own social network, and so hopefully it's not just the same forever. But it seems like LinkedIn is just the professional network for every, it feels like you mentioned the graveyard of companies have tried to compete with it. It feels like there's just no disrupting that. Is that something you believe or is that something you've looked for?

Sarah Tavel: I mean, certainly I've seen a lot of companies that are where the mobile first, GenZ, first LinkedIn. I think the companies that I've been more interested in are actually the marketplaces that have labour and are building a profile for those workers. So we have two companies in our portfolio that I can speak to. One is Instawork, this is just an incredible founder who has had an extraordinary level of grit because it was a marketplace for workers, for events. Imagine you're hosting an event and you need a bartender, the waiters, waitresses, they are a marketplace for that. It was pre-covid. You can imagine this company was growing like crazy.

Covid happened, nothing. Took the company down to the studs, launched in a new vertical industrial warehouse use cases, and now of course it's doing incredibly well, having these two verticals going back to events and then the industrial use cases and every worker, if you're a bartender, are you on LinkedIn?

No, but you have a profile with Instawork and the history of your work is on Instawork. The other example is a company called Medley. It's a marketplace for nurses. You're an outpatient surgical centre and somebody calls in sick, you need a nurse pronto. You use Medley for that. And then you start realising this is what happens with Instawork too, that instead of having the people there on staff, you can rely entirely on this new network of workers to fulfil all the work that you have. And same thing, these nurses have profiles now on Medley that is a reflection of their history as a nurse. And so these vertical networks that have emerged, there's going to continue to be other verticals. Real estate always seems like one of the obvious ones where you're going to see these types of networks form that way, and they never look like the last generation. This is not a network. It didn't start with a network and then become recruiting. It started with the human capital and then became a network. Who knows what the next generation will look like.

Erik Torenberg: The question I've been curious about for many years now but have never figured out the right solution for is how you bring reputation online. We've done it with certain categories, Rate My Professor, things like that. But reputation is so valuable. I mean, reference checks that we do is just so redundant on many levels, and at the same time, it also feels like information that just doesn't want to be on the internet or something, but at some point someone's going to figure out an elegant way to represent that because it seems like one of the great scarcities in this new AI era is information that's in people's heads that's not on the internet.

Sarah Tavel: Yes. Rich Barden was the CEO of many incredible companies such as Expedia, Zillow, and was a venture partner with Benchmark and one of the things he always talks about is the data that is in the shadows, whether it's data system that's already exists, that's structured and you can bring it online or in our brains and you can bring it into public domain. Glassdoor being an example of that, another company that he helped found that is always a recipe for a big opportunity.

Erik Torenberg: It feels like we've been talking about different eras internet era, mobile era. We had a bit of a crypto where an AI, we'll get to that. It feels like different eras values accrue differently between incumbents and startups. It feels like internet era produce literal trillion dollar companies, mobile era hasn't been as long, so maybe they'll get that big, but it feels like they won't, feels like they produce some epic companies. We've talked about some of them, but it feels like it was an extension of the internet. It actually enabled the internet companies to get to trillion dollar and it feels like that's sort of the consensus on ai that in some ways it feels like an extension of something that will continue to compound that there will be big companies, but the biggest gains will be reaped by the incumbents. Is that an accurate read or do you share that read or how would you edit that characterization?

How Benchmark is thinking about AI

Eric Vishria: I think we don't know, it's early. In the AI world it feels like there's three distinct things that are happening and I'm sure many others, but one is the model piece and the foundational models and everything else, and I think that that's an area where there's a few

organisations who are spending gobs of money and nine months later there are open source alternatives that are almost as good and maybe even better in specific applications, and were developed by three guys, a dog and a couple million bucks. And so it's an astonishing element and it's such a tremendously depreciating asset like that, the foundational models, there's a lot of cool work happening there. We've always been long open source. I think that continues to be really interesting and there'll be a lot of cool stuff happening there.

Second part is something that Sarah's talked about before, which is there's new vertical companies where they're selling the work. A lot of it is selling entry-level white collar jobs, whether it is medical transcription or paralegal work or assistants or analysts and so forth. LLMs in particular are good at that. There are new companies that are developing to do that. There's a real question as to the durability or defensibility of those companies, but if they're super interesting, they're getting real traction, they're solving real problems. So that's second category. And then third is what you mentioned, which is their incumbents, whether it's GitHub with Autopilot or Copilot or Microsoft introducing the writing capabilities into the office platform and so forth where there is enhancement, an incumbent based product and distribution, which seems to work really well. And in that third category, AI has the ability to reshuffle the deck.

There's some hierarchy of those products and those companies, and you could totally imagine the fourth or fifth place player or the startup who comes in with better AI or a more AI centric approach, leapfrogging the winner just because it becomes so necessary. And you're going to see a lot happening there. We're watching all three and we're in it. And where does value accrue? Are we going to see some breakout companies in that second category in those vertical applications? It feels like we will. It's hard to decipher right now, but we're meeting 'em all and trying to understand that and develop a conviction one way or another. And then the same thing with the incumbents and with the models, maybe I'm a little more sceptical right now, just it feels like amazing technology and I'm excited to see open source continue to win, but there's a lot of work to do to turn those into monetizable opportunities.

Sarah Tavel: Oftentimes the first wave of companies that emerge can create a head fake in a way for people and how they analyse the industry. And so it is natural for the first wave of companies to continue the mental model that we've had for the prior generation. And I love this saying, I forget who said it, which is like the startup has to race to get to distribution before the incumbent gets to innovation. And certainly a lot of what has happened is that you've seen startups that saw GPT3 took advantage of it and ran quickly, but man, the incumbents are good at innovating right now. And so they caught up very, very quickly and that created this kind of sentiment in the ecosystem of like, oh, the incumbents are going to be the main beneficiaries, but now we're starting to see this next generation.

And I think a lot about what Eric was talking about with work as an example where you always have to think about what the Jujitsu move is going to be when you go against the incumbents. In marketplaces it doesn't matter how big the incumbent is, it's always like how much better are you at making the customer happy than the incumbent can and what's a Jujitsu move here? Certainly, there's new surface area going after verticals that wouldn't have otherwise supported a software company that had to sell a productivity lift, 10%, 15%, whatever, trying to make that business model work versus a company that's just selling work, which is a 95% productivity improvement, that's very disruptive. It's new surface area that I believe is going to create a new

generation of companies. And then when you think about the incumbents, Eric's third category, well where are they vulnerable?

They're vulnerable in that most of them charge per seat and that is a real innovator's dilemma. And so yes, they can make each of their seats more productive, give them superpowers, but it might be that a company comes along and doesn't need to charge by seat, has a different way of thinking about what they're building, the value proposition, how they price it to the customer that is disruptive. Adam D'Angelo, the CEO of Quora, another company that another founder we get to work with talked about this as the next industrial revolution and it feels that way. But there's something unfair with it okay, if you're a trillion dollar company and you leverage AI in order to build 10% more market cap, that's a lot of money. And so there's a little bit that dynamic that we all face, but when you're thinking about it from where we are, there's going to be some important companies that get built.

Erik Torenberg: Yeah, it is interesting. You mentioned GitHub. GitHub was a company that had very low revenue when it sold is that accurate?

Eric Vishria: I think it had a couple hundred million, 300 million, yeah, not too, sure.

Erik Torenberg: But I just saw a hugging face raise this big round. It feels like they have pretty low revenue. It feels like there's some companies that raise a very high valuations that have some real value there strong community with strong data but just haven't figured out monetization. And it feels like, I dunno if they're built to sell to incumbents, but it feels like it's unclear how they become independent massive businesses.

Eric Vishria: There's definitely a hype cycle in AI right now, and so that's just the reality. It always happens, it's fine, but here's the thing about hype cycles. Normally in one of these hype cycles, there are a handful of companies that you almost could pay whatever and it still works as an investment. There are some amazing things and part of the reason there's hype and all these companies get marked up at these incredible prices is because everyone's looking for one of those companies that is going to be so special. And so it turns out if you overpay for a company that ends up being a trillion dollar company or a hundred billion dollar company, it doesn't really matter. Right? That's fine. And there's always a lot to figure out.

People forget the early days of Google, they didn't have monetization. They had amazing, amazing growth, they were stealing share. This is I'm talking about '99, 2000 or 2001 even they had just stealing tremendous share from other search engines. It was a better product and they were unclear on how to monetize it. I think at one point they were worried that they were going to run out of money. They were spending all their money on data centre costs to keep it up. And so you could figure it out is my point.

Erik Torenberg: If you have enduring value.

Eric Vishria: If you have enduring value and you have something that is there, it gives you the license or the opportunity to figure it out. It gives you the freedom to figure it out with some period of time. And that was always one of the big pushbacks on social networks for a long time. If you remember, it's like how are these social networks going to ever make money? Are they ever going to make money? Do they have a business model, blah, blah, blah. And then here we

have Facebook, which is what, 500 billion, 600 billion right now. And so it turns out it can work and configure 'em out.

Erik Torenberg: What we've seen in this era so far is that companies can grow insanely fast or much quicker, can get attention quicker, but they can also lose that quicker as well. And there's this whole sort of Meme at this point of the just wrapper around GPT or people, I think Jasper as an example of a company that grew super quick and maybe people are unsure about at the moment. How do you think about, I think you wrote something to this effect, Sarah, of what are the types of companies that are going to have enduring value or truly defensible.

What makes some companies endure?

Sarah Tavel: When you think about most SaaS companies? The reality is that very few of them have had a tech moat, right? Sometimes occasionally, I know with Amplitude as an example, they did work on the core database to deliver the service in a way that wouldn't have been cost prohibitive for them to do it, but very rarely are these companies actually about some special X. It's always about what is the advantage of scale that you are getting at the market faster with a better product, the work that you do as you build more and more of the features that people need so that you can deliver more and more value to the customer. And certainly, you see that a lot even with Jasper of the work that they do fine tuning, getting more enterprise ready, these things you take it for granted, but it's real work that has to happen in these companies.

But one of the things that I think about a lot also is there something that as you build it, you're building something else that has accruing value for the company. Whether that's the data set that you're building that lets you fine tune and make the value proposition stronger and stronger, whether you're creating a new system of record for something whether new data asset that you're creating that's almost an exhaust from doing the core work but is itself valuable. And there's also just the last thing, which is the core enterprise software work that sometimes has to happen of building the functionality that makes it easier for these companies to grow in an organisation.

And so the thing that I worry more about is trying to get distribution before the incumbent gets innovation. That just seems there's a lot of companies that were a new document type that you could use a large language model to help you write and then notion adds something exactly like that where you already are. It's really hard to compete that you're not trying to do that race against innovation for the incumbent. You're building something new that is a new surface area that feels like the important thing to focus on.

Eric Vishria: The nature of moats are much more complex than they've seem on the surface. And I'll pick a controversial company, Tesla, and one of the things that's interesting, so a large car manufacturer, CEO said this, an incumbent car manufacturer internal combustion engine said, what's the moat for one of those companies? And his view was that the moat was how they build a car and his primary concern wasn't electric versus like this or that. It was like did Tesla figure out a better way to build a car? And what was meant by that was everything like the unibody design, the biggest casting machines in the world, the emphasis on software battery development and how do you manage that? And his point was every single thing that they had done over the last a hundred years was built around one way of building a car and assembly line where you do things a certain way and you go this way and Tesla may have figured out a better way to build a car.

That's the moat and that's the thing that has shifted. We're trying to figure it out where is the moat on a lot of these AI companies and how we think about it, but it might be more hidden and under layers or more convoluted or more complex than it seems on the surface.

Erik Torenberg: Say more about where you think people misunderstand moats in general. Is it that they see them out there?

Eric Vishria: They hear these simplistic things which are like data is the new oil and data's the moat. It's like is it okay maybe or one that's popular around the AI companies right now is access to compute or whatever. It's like is it, I don't know, and those feel like things which are more transient or I think data to take data as an example, people have very consistently figured out ways around that, and I'm sure I'm wrong about some other case.

There are some case where there is a huge proprietary data set that's valuable like Rentech, Renaissance Technologies they have built, their business, they would say as a fund, an investment house is their data moat, which they have built over however many years and took time to develop. But in general, I don't know that most of these companies who think they have a data moat, have a data moat. I don't think there's that much value in their proprietary data. It turns out they have their data and someone has data that's available on the internet and it's basically as good.

Erik Torenberg: So, they're defensible for other reasons or they're not defensible.

Eric Vishria: Yeah, it seems like, I mean that seems like it, right? And so you keep going through these things and you see examples like that where you can come at it from a different direction. Let's take another example just because talking about these interesting businesses is forever. People thought with Netflix their back catalogue was the moat. It changes.

Erik Torenberg: That's really interesting. Venture capital firms don't have data moats.

Eric Vishria: No, we do not have data moats.

Erik Torenberg: You benefit from strong brand moat like long feedback loops, so brand becomes a moat.

Eric Vishria: I think brand is a moat and then you just have to wake up every morning running with absolute reckless abandoned hustle to maintain that.

Erik Torenberg: Peter has said that, yeah, the day that I don't want to cold email a founder or think I'm too good to do that is the day where I stop being a good VC or something like that.

Eric Vishria: Yeah, it takes that.

Sarah Tavel: There really is something to that.

Erik Torenberg: Okay, we talked a bit about AI. I want to talk about crypto as well. Here's my read from the outside on Benchmark crypto, you guys some great money, made some great bets, Chainalysis, Bitcoin early I'm sure so rare.

Sarah Tavel: Yeah, a couple of them.

Erik Torenberg: I'm sure a few others, but relative to your peers, I don't want to say you sat out but you didn't go all in the same way. You were relatively disciplined and the firms that lost the most and maybe won the most feel like they were just more comfortable YOLOing and it feels like that's not as much in the Benchmark DNA because you're more fundamentally more sophisticated. You're going to do the thing that guaranteed does well versus willing to take these bet it all type thing. Is that an unfair read? I'm sure part of it is YOLOing but also part of it is different fundamentals which is more like what are other buyers going to do or more about even NFTs is such a status driven thing, more like awareness of the markets and just a different investing than fundamental venture investing.

Sarah Tavel: Yeah, I think that's what it comes down to. The way I think of it is there was a class of companies playing in the crypto space where they were founders that believed that company building was going to be important. They were founders that were excited about the technology that was getting more and more mature around blockchains and crypto generally, but also recognise or are oriented towards building an enduring company, doing the company building. I think we have a very large percentage of those companies. The founders of Sorare just incredible and from the very beginning, even though they were participating in this NFT world that had a lot of hype around it, they were very oriented on finding a partner to help them build a enduring company. Same thing with Global Illumination, which we just sold to OpenAI and then Chainalysis (inaudible), Zappo and so those companies, those founders were very oriented towards those types of businesses.

Then there was another class of company, which is where the crypto-focused funds ended up orienting towards. They were very focused on the example of Uniswap, a company that built extraordinary amount of value with a super small team because they were able to use to tokens and token economics in order to not need to do the company building and to create the right incentives to enable and facilitate that ecosystem. There were great examples of companies there, Uniswap being one of them. There are many more and there were a lot of companies to the earlier conversation with Eric that it felt like a very short-term orientation. I felt a little bit like it was the culture that got set in crypto with ICOs where you write the white paper, you raise a lot of money and then you'll figure out how to build the thing and the founders at that point, they don't even need to be around the hoop because they've already got their tokens from the ICO raise. That permeated so much of the culture of building in crypto, it permeated how people thought about NFTs and that just isn't our orientation.

It's a game that a lot of people were able to play extraordinarily well and kudos to them, but that just isn't who we are. If we wanted, there are ways that Benchmark, we could all make more money. We were joking before we started about the Benchmark growth fund, wealth management, all those things. There are always those types of opportunities and certainly that era felt like it for a while. I joked once that I felt like I was a professional basketball player and I took a rocket ship to Mars and I tried to shoot a hoop and then the ball just floated away. There was so much that wasn't who we are and the game that we want to play, which is that building

enduring value, partnering with the founder who wants to do that and that's why we're here is doing that work and that type of partnership and that just felt very different. And so the companies that fit the mould of partnership that we want. We were there, we were in that arena, but the other thing people did a lot of great investing, made a lot of money. That just wasn't, that type of orientation wasn't our thing.

Erik Torenberg: We're all in the arena just trying stuff. Some will work out.

Sarah Tavel: Yeah, I can't believe I said arena.

Perspectives on HealthTech

Erik Torenberg: Yeah, exactly. Let's talk about healthcare for a minute. Yeah, I was wondering if things have changed. We talked a few years ago, your wife is a long time healthcare entrepreneur and investor and you were bearish about it after going a little bit deeper as a firm about it, just it's so hard, etc. Nothing changed? Nothing changed there?

Sarah Tavel: Health tech, it's a humbling space for a founder and I met with a founder just the other day, so super talented team. One of them, they had an idea using AI for a value proposition that makes so much sense and then you start to ask the question of like, well, who's going to pay and where are the incentives going to come from for that to happen? And you're just like, oh, these poor guys going to, I introduced them to a friend of ours, Malay because I was like, Malay, these are super smart guys, but they need help guiding the topology of healthcare and just the incredible incentives that are so not what you would rationally design if you had a blank sheet of paper. And so it's one of those spaces. There's some spaces in venture and what we do where I joke you have to marry them, you can't date them. I felt kind of crypto token world was one of those spaces where if you try to date it, it's going to be really difficult. It's so specialised. I think healthcare is one of those two where it's a hard one to date because you just have to have that mental map in your mind of all the incentives and all the different players and how it all fits together and it's tricky to be surfacing there.

Eric Vishria: Take the contrarian view, please. There are emerging areas. You're on the board of Medley nurse marketplace. I work with Benchling and a company called Acuity MD, which serves the medical device companies. And there are these areas that are not directly hospitals and patient care and the weird triumvirate of insurance, patients and providers and everything that goes on between them and the weird incentives between 'em, but actually all of these other areas around them which really do contribute to better patient experience, better medicines, better patient experience through better medical devices or better nurses, better drugs that are important. There is a lot of interesting innovation happening and we have bizarrely invested in 'em. That's true. And all those companies are doing well, which is kind of interesting too. And so there's this other dynamic which is just maybe the way to tackle the industry isn't to mess with this triumvirate, which is at the core of it or have to integrate with the EMR, which is controlled by one company largely that has literally no incentive to do anything except increase the percentage of GDP that we spend on healthcare in the country.

It's just like maybe we just have to come at it like this way and we'll continue to see those and excited to see those companies because there is a lot of spend there. There's a lot of waste there. There's a lot of room for innovation and so it's just finding the angle of attack.

Benchmark's strategic choices and tradeoffs

Erik Torenberg: I appreciate the light disagreement there. I said as a segue to when you guys are debating the refounding of the firm, what are the debates that keep coming up or what are the conversations or questions that you guys are asking yourself when you think about, Hey, I know we've said we're going to do this for so long, but is this something we should consider? What are the questions?

Sarah Tavel: Probably the one that I think about the most in part because I grew up in the industry this way. I started my career in Venture as an analyst at Bessemer. So, lowest rung of the ladder cold calling founders, which was an early idea of Jeremy Levine started that program at Bessemer and now has become the default in a way. These other firms, as we talked about earlier, they see a hundred percent of the companies that are getting founded or funded and one of the conversations always, we have chosen thus far to be really the six general partners. We have Blake who is incredible as a Principal. I think we've had five Blakes in Benchmark in the 25 plus year history. And so the paranoia that I certainly have all the time is there is going to be that founder whom mistakes are lack of outreach for a lack of interest.

Sarah Tavel: We are constrained by the fact that we have six people and other firms have dozens of people who are reaching out to seed funds, cold calling the founders, and so it's very easy for a founder then to look at their inbox and decide whom they're going to raise from based on their inbox. I actually had a funny experience with a friend of mine who's a YC founder and he was telling me, he's like, my process is just not moving that well. And I was like, well, tell me who you're talking to. This was like pre-revenue company. And I looked at his list and it was all these multi-stage venture firms who had reached out to him. I'm like, oh my God, it's a wrong signal, but a lot of people make that mistake. And so there is a corresponding trade-off of course to having more people at Benchmark besides the GPs.

One of the biggest ones is just does it end up atomizing our attention away from the collaboration that we have with each other? And there are many other things to think about, but that is certainly when you ask me where I'm most paranoid, I want to make sure I'm seeing the best companies that I can possibly see getting to meet those founders. People tell stories about us, oh, they move whatever. They're going to want to lower price or they're going to be slow or whatever. People tell these stories, they only say yes once or twice, whatever it is. We need to work against that all the time to meet those founders and other firms have developed machinery around it that we don't have. Totally, and that's a trade-off.

Erik Torenberg: It's interesting if in a competitive market, no one wants to be a worst version of other firms playing their game, you want to play your game to the max. A hundred percent. And so yeah, you could have a little bit of platform team, but these firms have masses. You, no one's ever going to compete on that level, but what they're not going to compete with you on is GP time and attention and focus, and so maximising that.

Sarah Tavel: Yeah, it's a great, one of the trade-offs is we cold email cold DM people all the time or do the first call, that is us reaching out. There's no army of people who are doing it. It is us and there's no person we engage with a company, there's no person to whom I say, oh, reach out to these other companies or do these diligence calls or go through the spreadsheet if there's a spreadsheet. There rarely is, but that's us, and we think that leads to a better experience for the founder. It leads to better decisions by us, but there are trade-offs to everything.

Erik Torenberg: Yeah, Benchmark does the work. That's a great place to wrap. Eric and Sarah, thanks so much for coming on the podcast.